Mixed Oligopoly: Old and New
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Comments by Director General Knut Eggum Johansen
Norwegian Competition Authority

The Pros and Cons of Competition in/by the Public Sector
Stockholm, November 13
Norwegian Competition Law

- Prohibition regulations
  - Collusion
  - Abuse of dominance
- Merger control
- Advocacy
Structural development in Norway

Man-hours

Manufacturing
Private services
Public services

1970 2007 2060
# publicly owned companies in Norway 2003-2008

- State owned enterprises
- Municipally owned enterprises

![Chart showing the number of publicly owned companies in Norway from 2003 to 2008, with bars indicating the number of state owned enterprises and municipally owned enterprises for each year.]
# General government-owned corporations, by industrial classification in 2008

- Renting and business activities
- Real estate
- Transport
- Electricity and gas supply
- Manufacturing
- Construction
- Other community, social and personal service activities
- Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods
- Health and social work
- Education
- Hotels and restaurants
- Public administration and defence; compulsory social security
- Primary industries
- Post and telecommunications
- Mining and quarrying
- Real estate
- Renting and business activities
Some general comments

- These graphs and figures show that De Fraja discusses a highly relevant issue
  - Markets with mixed oligopolies quite common
- The paper presents insight of relevance to the competition authorities regarding i.a.
  - Public firms’ incentives for growth
  - The incentives for public banks in a recession
  - The organization of markets involving public services
Section II: Traditional “mixed oligopoly” theory

- Points:
  - Public firms competing in the market with welfare maximizing objective function is “very keen to increase output”
  - This might imply lower prices and benefits to consumers
  - This is insight of relevance for competition authorities
  - However, keenness for growth must be kept within the limits of the law, balance regarding Article 81 and 82
  - We must be alert regarding attempts to abuse a dominant position
  - Examples: The SAS case (predation) and several cases involving former postal incumbent monopolies in the Nordic countries
Section III: An instructive very simple banking story

• Point: Public banks in recession more conservative
• Highly relevant, not the least in these times of crises
  • See e.g. advice from the Icelandic Competition Authorities in *Competition Policy and Financial Crises*
• Ten principles from the ICA to the state-owned banks - opinion No. 3/2008
Section IV: Public-private competition in the welfare state

Points:
- Human capital training aspect of public services makes public funding more acceptable, also from competition authorities’ point of view
- De Fraja argues for a voucher scheme

Important questions that have, and still are heatedly debated:
- What services should be public? How to finance? How to organize?
- Who should provide? Public, private ... or both?

From a competition policy point of view competition neutrality is important:

1. **Common legal regime:**
   - Competition law applies **fully** to public firms operating in a market!

2. **Level playing field:**
   - When markets are involved in the provision of public services, competition between private and public firms must be on **equal** terms!
Section IV: Public-private competition in the welfare state

- Vouchers definitely an interesting tool. Experience with this in Norway in e.g.:
  - Specialist health care
  - Nursing and care for elderly
  - Schools
- But all problems are not solved with vouchers
- The competition authorities must be alert to assure competition on equal terms
- The NCA have several tools (§9e and §14) to contribute to a level playing field
- ... and we have had several cases, for instance regarding waste collection
A question mark

- A quote from the introduction:
  - “From a competition policy point of view the issue should be whether or not a firm’s alleged anti-competitive behaviour is compatible with its objective function” (page 3)
- This is not a very practicable advice for competition policy
- Competition law well adapted to handle cases when the behaviour of a public - as well as a private - firm benefits consumers
  - Article 81(3) and the fair share for consumers requirement
Summarizing comments with three questions

- **Objective function:**
  - How should competition authorities take the objective function of the public enterprises into account in enforcement in practice?
- **Banks:**
  - What are the advices regarding (temporary) publicly owned banks in times of crisis?
- **Vouchers:**
  - What if competition between public and private providers of public services are on other dimensions than price?
  - Public provider often capacity constrained and competition is on i.a. waiting times